

Letter of Transmittal  
December 15, 2008

Honorable Mayor, Common Council, and Finance Committee:

Pursuant to Section 13-2.A, Municipal Code of the City of Franklin, submitted herewith is the 2009 Annual Budget for the City of Franklin that was adopted by the Common Council on November 3, 2008.

#### Introduction

The budget process began with the preparation of a budget forecast. The forecast calculated 2009 costs based on a set of cost assumptions applied to the 2008 approved work program. The departments were then requested to provide their input on personnel needs, capital outlay needs, equipment replacement needs, street improvement needs, capital improvement needs and related debt service needs for 2009 and following years. That information plus the forecast was provided to the Mayor.

The Mayor and staff reviewed the forecast, discussed with departments requesting new personnel and determined what personnel level, capital outlays, equipment replacement, street improvement, capital improvement and related debt service needs would be included in the 2009 Department/Requested Budget. That information was communicated to the departments. The departments then prepared their Departmental budget requests and submitted them to the Director of Finance & Treasurer for compilation. The Mayor consulted with the Director of Administration and Director of Finance & Treasurer, discussed with Department Heads and made adjustments in putting together the 2009 Mayor's Recommended budget. That document was reviewed by the Finance Committee and then the Common Council. The 2009 Budget was adopted after a public hearing was held.

The budget document consists of three sections. Summary information providing an overview of the City budgets including assessed valuation, tax levy and tax rate information. Detail departmental budgets for the City of Franklin General Fund and fund budgets for the Library, Sewer, Water Utility, Capital Projects Funds and Debt Service Fund. Also included is debt repayment information for the Tax Incremental Financing Districts.

Budget Summary

The Adopted budget recognizes the financial hardships that the citizens of Franklin are and will experience due to tough economic times. The Mayor recommended that the City tighten its financial belt in the same manner that the taxpayers are being forced to do because of skyrocketing costs for fuel, food and other commodities. The Mayor and Council recognize that the people of Franklin are expecting their government to be as fiscally prudent as possible during this time when layoffs, plant closings and health care cost increases are happening in their lives and those of their family members.

The dramatic drop-off in residential and commercial development due to the overall decline in the housing industry in 2007 and continuing in 2008 has had significant impact on the finances of the City of Franklin. For the prior six years, revenue had exceeded expenditures each year. That was not the case in 2008. Revenue has not kept pace with regular expenditures. The largest decline has been in development related revenue, dropping by \$789,000 over the last two years. The forecast for 2009, adjusted for these changes, projected expenditures exceeding revenue by \$1,157,000. The Mayor and Council adopted a budget so that taxpayers were not expected to make up this shortfall. City department requests for \$710,000 in new manpower positions were denied.

The Mayor and Council strived to maintain services whenever possible. The necessity to reduce a 2009 shortfall projected to be as much as \$1.2 million required a series of actions. The Mayor froze hiring in April of this year. No new positions were authorized in the 2009 recommended budget. In addition the following positions were not be funded in 2009 or until such time when the economy or the City of Franklin financial picture improves significantly:

- City Development Director
- Planning Secretary
- Assistant Building Inspector
- Building Inspection Secretary
- Engineering Drainage Technician
- Police Officer

In addition to personnel reductions listed above the following was adopted:

- Freeze the tax levy to the Library and Capital Outlay Funds at the prior year amount
- Reduce the tax levy to the Street Improvement Fund by \$150,000 from the prior year amount given the significant reductions in development.
- Reduce the Equipment Revolving tax levy by \$50,000 from the prior year amount
- Reduce the Debt Service tax Levy by \$100,000 from the prior year amount.
- The amount of tax levy reductions in these funds should be transferred to the General Fund to help with the issues facing that fund.
- Delay the Highway and Parks Department filling of an anticipated vacancy for at least four months, reduce the Saturday recycling effort to one person and eliminate a Parks part time position.
- Reduce operating and capital outlay requests of departments with many held at or below the prior year level.

Highlights of the Mayor's recommended budget include the following:

- The City tax rate of \$5.83 is recommended, an increase of \$.08 from the prior year.
- The City portion of the tax rate increased due to the increases in labor contracts, benefits, insurance, energy prices in fuel, utilities and road maintenance materials. Notable among the increases was fuel up 60%, asphalt up 25%, workers compensation insurance up 20% and electricity and gas up 9%.
- Two of three vacant positions in the Police Department are recommended to be filled. Should additional revenue become available in 2009 the third vacant Police Officer position should get priority consideration for being filled.
- Significant increases in ambulance calls and the resulting increase in revenue coupled with recent staff changes, including the elimination of a management position, dictated that no reductions in Fire Department staff occur. Any such reduction would require reducing public services by eliminating one of the two paramedic ambulance units that are in service around the clock which would result in a reduction in service provided and in the revenue being realized.
- The Highway/Parks reduction included eliminating a part time Park's position and delaying filling an anticipated Highway vacancy for at least four months.
- Increased contracted Sanitarian costs which will be covered by program revenue and will improve public safety by providing for regular inspections of restaurants using local staff in place of infrequent inspections by State staff. No tax levy is required.
- Maintained the Information Services support to enable departments, especially the Police Department, to effectively use existing network and software systems.

The Adopted 2009 budget recognizes the hardships that the Citizens of Franklin are experiencing due to the difficult and unpredictable economic times including the ever increasing costs especially for food, fuel and energy costs. The recommended budget responds by aggressively restraining growth in City expenditures through various measures, including eliminating staff and holding the change in property taxes experienced by the average taxpayer to well below inflationary forces.

#### Tax Levy and Tax Rate

The City tax rate is the result of the tax levy required to finance the activity in all City funds divided by assessed value of the city. The prior year City tax rate multiplied by the new construction value provides the amount of growth tax levy and that amount was \$297,701. The tax levy required to finance the Adopted Annual Budget (all funds) has increased by \$587,000, including growth, from \$19,555,000 to \$20,142,000 or 3.0% increase.

The levy limit for the City of Franklin included; last years levy amount, net new construction at 3.07% and the increase in debt service of \$237,332 for a total of \$20,392,475. The recommended tax levy of \$20,142,000 includes an increase that is 70% of the allowable increase in tax levy.

The Adopted Budget resulted in a City tax rate of \$5.83 per \$1,000 of assessed value compared to last year's City tax rate of \$5.75 per \$1,000. The percentage City tax rate increase is 1.5%.

The Breakdown by Fund reflects the tax levy requests by fund.

City of Franklin Tax Levy Information						
City Tax Rate Components	2008 Budget Tax Levy	2007 Budget Tax Levy	Tax Levy % Change	2008 Budget Tax Rate	2007 Budget Tax Rate	Tax Rate % Change to Total
Capital Outlay	475,000	475,000	0.00%	0.1375868	0.1396251	-1.46%
Equipment Replacement	277,000	327,000	-15.29%	0.0802348	0.0961209	-16.53%
Street Improvement	800,000	950,000	-15.79%	0.2317251	0.2792502	-17.02%
Debt Service	1,900,000	2,000,000	-5.00%	0.5503472	0.5878952	-6.39%
Subtotal	3,452,000	3,752,000	-8.00%	0.9998939	1.1028913	-9.34%
Library Program	1,150,000	1,150,000	0.00%	0.3331049	0.3380397	-1.46%
General Fund Program	15,540,000	14,653,000	6.05%	4.5012606	4.3072139	4.51%
Total	20,142,000	19,555,000	3.00%	5.8342593	5.7481449	1.50%
Prior year levy	(19,555,000)	(18,501,000)				
Increase in tax levy	587,000	1,054,000				

### Assessed Valuation

The equalized (estimated assessed) value of all property from new development computed by the Department of Revenue increased by \$209,332,900 or 5.67% to \$3,898,387,300. The year 2008 was not a reassessment year. The assessed value unless a property was changed remains at the 2006 amount. The assessed value, exclusive of the TID value, increased from \$3,401,967,140 to \$3,452,366,240. The assessed valuation including the TID value was \$3,698,273,340.

### General Fund Summary

The General Fund is one section of the City's overall budget. It is the largest segment of the City's total budget and includes the operating expenses of the City departments.

The expenditure budget for 2009 of \$25,325,000 is a 6.2% increase over the 2008 budget. The increase includes 3% for including retiree health expenses previously included in another fund and 2% for a contingency increase. The remaining 1.2% increase over 2008 includes no new staff positions and eliminates funding for six full time positions and takes other actions to reduce spending as detailed at the beginning of this report. The recommended expenditures are the requests of the departments

adjusted by the Mayor and Council. The actual expenditures for 2007 were \$22,856,346 which under expended that budget by \$963,654 or 4.1%. Some of the under expenditures were the result of vacant positions and by contingency budgeted but not used during the year. The budget for 2008 of \$23,847,000 was a 4.3% increase over the 2007 budget. The current estimate to be expended in 2008 is 23,317,664, 2.2% less than budgeted. The decrease from budget in this year's estimate is primarily caused by vacancies in positions, less group health & dental costs and a contingency budget that will not be expended. The budget did plan for unspent funds by not taxing for all of the budgeted spending needs.

The actual General Fund tax levy revenue for 2007 was \$13,615,257. Tax levy revenue for 2008 was budgeted at \$14,653,000. The recommended General Fund tax levy revenue for 2009 is \$15,540,000. Reductions in the tax levy in other funds enabled the total tax levy to remain at a 3.0% increase. The reasons for the growth of the tax levy include: cost increases from labor contracts, benefits, insurance, energy prices as detailed in the budget summary and the reduction in fund balance transfer.

All other revenue received for 2007 was \$8,154,737 compared to a 2008 budget of \$8,369,000, was a 2.6% increase. However, the projection for all other revenue for 2008 is \$8,013,150, a 4.3% decrease from the 2008 budget. In 2009 all other revenue budgeted is \$8,456,000 a 1.0% increase from budget but a 5.5% increase from the 2008 estimate. The major reason for the decrease in all other revenue in 2008 and the small increase budgeted in 2009 is the decrease in permit fees, the expenditure restraint payment from the State and interest revenue. The decrease was offset to some extent in 2009 by increases in ambulance fees, room taxes, cable fees and water utility tax equivalent payments.

In addition, in past years the amount budgeted as a transfer from fund balance has been offset by a combination of the revenue realized in excess of the budgeted amounts and the budgetary under expenditures realized. In 2008 that did not happen, nor can it be counted on to happen in 2009. As a result, the transfer from fund balance component in the 2009 budget was reduced except for the contingency increase that will likely not be spent.

A budgeting overtime philosophy was maintained at an estimate of an average years exposure with the understanding that the departments will be able to request additional appropriations from fund balance in a year in which there are above average departmental needs for overtime costs. A similar philosophy was continued for salt purchases, fuel and claims against the City.

Library Fund

The Library is requesting expenditure funding of \$1,273,660, an increase of \$25,423 or 2.0%, in support of Library activities. The increase includes no new positions. The Library used automation and a reduction in part time help as ways to reduce their budget request. Their spending level is supported by tax levy of \$1,150,000, the same amount as 2008, and plan to use of some of the Library's existing fund balance to support 2009 activities.

Sanitary Sewer Fund

The Sewer Fund receives its revenue from user fees and interest income. Its expenses are to MMSD, salaries, benefits, capital assets and other costs of maintaining and improving the sanitary sewer system. The Fund balance in this fund has been reduced over a period of years. In 2008 MMSD had a significant sewer rate increase (about 35%). As a result sewer rates had to be significantly increased to cover the increase and meet local operating costs of the fund. MMSD has indicated the need for an increase of about 12% in 2009 charges to cover the energy costs related to the switch in operating contracts during 2008. The Sewer Fund rates for 2009 will need to recover this increase in their 2009 rates.

Water Utility

The approving body for the Water Utility is the Franklin Board of Water Commissioners. Because of that fact, the information included in the City of Franklin Annual Budget book relative to the Water Utility is not included in the City of Franklin summary information. The Water Utility increased water rates by 3.2% in January of 2008. In July of 2008 the Water Utility through a purchased water rate increase to water rates increased the water rates by about 12.5% when our water supplier was granted an approximate 25% increase by the PSC. No rate increases are anticipated in 2009.

Capital Outlay Fund

Departmental requests for capital outlays in 2009 totaled \$1,086,392 compared to \$955,974 in 2008. Departmental requests were reduced by \$528,706 leaving \$557,686 that compares to the \$703,900 in 2008. The related tax levy remained flat for 2009. Additional funding will be necessary for this fund to meet the needs of the departments in future years.

Equipment Revolving Fund

The Equipment Revolving Fund provides for the replacement of various types of motorized equipment. New equipment purchased by other funds and replacement equipment purchased is placed on a depreciation schedule in the year acquired.

Replacement is made based upon the estimated useful life of the equipment. Funding from the tax levy should approximate the annual depreciation of the replacement value attributed to the city's total fleet based on estimated useful life. The 2008 funding was 57% of the goal. The tax levy budgeted for 2009 was \$277,000, a decline of \$50,000. That represents 54% of the desired tax levy indicated by the fund policy. Replacement expenditures of \$335,000 have been requested for 2009 from this fund.

#### Street Improvement Fund

The Street Improvement Program is a separate capital projects fund to give visibility to street improvement activities. Many of the City of Franklin streets were reconstructed at the time sewer was installed in various parts of the City 25 to 30 years ago. Many of those streets will need to be resurfaced in the coming years. Tax Levy support is decreased to \$800,000 in 2009 from \$950,000 in 2008. A proposed five year street improvement program is prepared annually. Available revenues are insufficient to allow all of these projects to be implemented in the time projected.

#### Capital Improvement Fund

The Capital Improvement Plan is used to project public improvement needs for the coming years. The Capital Improvement Fund uses this five year forecast for planning purposes. Items contained in the Capital Improvement Fund are financed with existing resources, resources from other funds and from the issuance of debt. There are no major items in the 2009 budget. Some Park development funding is included, coming primarily from impact fees. In addition, an estimated engineering cost for tornado warning sirens is included.

A 2009 budget for the Capital Improvement Fund is prepared each year as the first year of a five-year forecast. The 2009 Forecast was the amount presented for Common Council budget approval. Projects that have Common Council approval will receive specific budget itemization. For those projects that have not yet had Common Council review and approval an unallocated total appropriation is requested.

#### Debt Service Fund

The City's plan is to issue Debt every other year in support of its capital activities. The last debt issuance in support of capital activities was in 2008. In 2008, debt of \$10 million was issued for the benefit of TIF District #3. This enabled the TIF District to repay its line of credit of \$4 million and return its interfund advances of \$6 million. The \$6 million advance was then reissued to TIF District #4 for \$3.5 million and the Capital Improvement Fund for \$2.5 million to meet their debt needs. The City currently forecasts future debt issuance of \$2.0 million every other year to support public improvement projects.

Conclusion

The year 2008 was the "Perfect Storm". Development revenue was down significantly with no quick turnaround in sight. Cost increase pressures were led by increases in fuel, asphalt, insurance, electricity and natural gas costs. As a result the City of Franklin Fund Balance was reduced by about \$700,000 at the end of 2008. Combining these factors resulted in a 2009 forecast of \$1,157,000 in expenditures that could not be supported by anticipated revenue. Tax levies of the other funds were either frozen at the prior year level or reduced from the prior year level. Six full time positions were not funded for 2009 and a combination of not filling positions and layoffs resulted. Cuts were made in all departments of the City resulting in a General Fund expenditure budget that increased minimally.

Combined capital spending is lower than the prior year. The Capital Outlay Fund was funded with the same tax levy as the prior year. The Equipment Revolving Fund and the Street Improvement Fund's tax levies were reduced. The Capital Improvement budget is funded at a minimum level and Debt service tax levy has been reduced.

In spite of many challenges, the Mayor and Council adopted a 2009 budget that restricts expenditure increases with a tax levy increase of 3.0%, a tax rate increase of 1.5% and a General Fund expenditure increase of 1.2% exclusive of the contingency adjustment and the transfer of retiree health costs from another fund.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Calvin A. Patterson".

Calvin A. Patterson, CPA  
Director of Finance & Treasurer